

Message Text

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ACTION EB-07

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R 180212Z AUG 76

FM AMEMBASSY TOKYO

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E.O. 11652: NA

TAGS: ETRD, BEXP, JA

SUBJECT: NON-TARIFF BARRIER: NTT PROCUREMENT

REF: TOKYO 9766

1. EMBASSY IS CONTINUING ITS EFFORT TO OPEN UP PROCUREMENT POLICIES OF NIPPON TELEGRAPH AND TELEPHONE PUBLIC CORPORATION (NTT). IN REFTEL, EMBASSY REPORTED THAT DIPLOMATIC NOTE RECEIVED FROM FONMIN STATED THAT NO SPECIAL RESTRICTIONS ARE ATTACHED TO PROCUREMENT BY NTT AND THAT NTT'S PROCUREMENT POLICY FOR FOREIGN-MADE PRODUCTS IS NON-DISCRIMINATORY AS LONG AS PRODUCTS MEET NTT'S STANDARDS AND SPECIFICATIONS, ARE ECONOMICAL, HAVE ADEQUATE QUALITY CONTROL, AND GIVE ASSURANCE OF STABLE FUTURE SUPPLY.

2. WE HAVE RECENTLY SEEN NTT PROSPECTUS FOR 100 MILLION DOLLAR GUARANTEED NOTED ISSUE FILED WITH S9..E.C. APRIL 27. PROSPECTUS CONTAINS STATEMENT REGARDING SOURCES OF SUPPLY:

"NTT DOES NOT MANUFACTURE ANY EQUIPMENT USED IN ITS BUSINESS, NOR DOES IT IMPORT ANY OF THE ITEMS USED BY IT IN THE GENERAL CONDUCT OF ITS BUSINESS, AS ALL OF SUCH ITEMS ARE MANUFACTURED BY JAPANESE COMPANIES. NTT HAS EXPERIENCED NO DIFFICULTY IN OBTAINING NECESSARY EQUIPMENT, MATERIALS, AND SUPPLIES FOR ITS CONSTRUCTION PROGRAMS AND FOR ITS OPERATIONS AND IS NOT DEPENDENT ON ANY ONE SOURCE FOR ANY ESSENTIAL EQUIPMENT

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OR FOR AN IMPORTANT PART OF ITS PURCHASES. NTT BELIEVES

THAT ITS SUPPLIERS ARE SUBSTANTIALLY DEPENDENT ON IMPORTS FOR RAW MATERIALS AND CERTAIN COMPONENTS."

3. NTT'S STATEMENT TO EMBASSY IN FONMIN NOTE DESCRIBED IN PARA ONE AND NTT STATEMENT TO S.E.C. QUOTED IN PARA TWO STAND IN OBVIOUS CONTRAST. NTT'S STATEMENT TO THE S.E.C. INDICATES THAT IT IS IN PRACTICE PURSUING A BUY JAPAN POLICY.

4. NTT DOES NOT STATE IN PROSPECTUS WHY IT PURSUES POLICY OF BUYING ONLY ITEMS MANUFACTURED BY JAPANESE COMPANIES. IN EMBASSY'S VIEW, A DOMESTIC PROCUREMENT POLICY WHICH IGNORES COMMERCIAL AND TECHNICAL CONSIDERATIONS SUCH AS TECHNOLOGICALLY SUPERIOR, LESS EXPENSIVE FOREIGN PRODUCTS IS NOT WHICH S.E.C. MIGHT FEEL DESERVES EXPLANATION TO POTENTIAL U.S. BUYERS OF KHE NTT'S NOTES. EMBASSY WOULD APPRECIATE DEPARTMENT'S OBTAINING COPY OF THE REGISTRATION STATEMENT ON FILE WITH S.E.C., REGISTRATION NUMBER 2-55936, AND DETERMINING WHETHER ANY ADDITIONAL INFORMATION IS GIVEN ON NTT PROCUREMENT POLICIES.

5. EMBASSY HAS FOUND THAT PRACTICE OF NTT OFFICIALS RETIRING AND FINDING HIGH LEVEL EMPLOYMENT IN JAPANESE DOMESTIC TELECOMMUNICATIONS EQUIPMENT COMPANIES, AND OWNERSHIP OF STOCK IN DOMESTIC TELECOMMUNICATIONS EQUIPMENT COMPANIES BY NTT'S EMPLOYEES MUTUAL AID ASSOCIATION (TO WHICH NTT CONTRIBUTES), MAY CONSTITUTE ADDITIONAL REASONS FOR NTT'S BUY JAPAN POLICY. ON PAGE 20 OF PROSPECTUS SUBMITTED TO S.E.C., NTT STATES CONCERNING INVESTMENTS IN RELATED COMPANIES THAT: "INVESTMENTS IN RELATED COMPANIES, MINOR IN AMOUNTS, ARE CARRIED AT COST. THE PRINCIPAL INVESTMENT IS YEN 1,320 MILLION (\$4,286,000) REPRESENTING 10 PERCENT OF THE PAID-IN CAPITAL STOCK OF KOKUSAI DENSHIN DENWA CO., LTD., THE MARKET VALUE OF WHICH AT MARCH 31, 1975 WAS APPROXIMATELY YEN 7,788 MILLION (\$25,286,000). THE REMAINING INVESTMENTS ARE IN CERTAIN MARINE AND REGIONAL TELECOMMUNICATIONS SERVICE COMPANIES IN JAPAN." EMBASSY HAS FOUND, HOWEVER, THAT ALTHOUGH NTT DOES NOT LIMITED OFFICIAL USE

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HOLD STOCK IN PRIVATE COMPANIES, NTT EMPLOYEES MUTUAL AID ASSOCIATION--WHICH NTT CONTROLS--DOES. FOR EXAMPLE, NTT MUTUAL AID SOCIETY OWNS 5.5 PERCENT OF STOCK OF IWASAKI TSUSHINKI (IWATSU ELECTRIC CO., LTD.) WHICH IS LARGEST SUPPLIER OF TELECOMMUNICATIONS EQUIPMENT TO NTT. NTT MUTUAL AID SOCIETY IS IWASAKI'S SECOND LARGEST STOCKHOLDER, AND MARKET VALUE OF STOCK ON AUGUST 14, 1976 WAS YEN 729,900,000 (\$2,500,000). PRESIDENT AND

SOME MANAGING DIRECTORS OF IWASAKI TSUSHINKI ARE FORMER NTT OFFICIALS. EMBASSY WOULD APPRECIATE DEPARTMENT CHECKING WITH S.E.C. TO DETERMINE WHETHER ABOVE STOCK OWNERSHIP BY NTT'S MUTUAL AID SOCIETY REPRESENTS THE KIND OF POSSIBLY CONFLICT OF INTEREST THAT A FIRM WOULD NORMALLY BE REQUIRED TO DISCLOSE IN PROSPECTUS SUBMITTED TO S.E.C.

6. ACTION REQUESTED : EXAMINATION OF NTT REGISTRATION STATEMENT, AS DESCRIBED IN PARA FOUR, AND S.E.C. DETERMINATION OF POSSIBLE CONFLICT OF INTEREST, AS REQUESTED IN PARA FIVE.

7. EMBASSY INTENDS TO RAISE SUBJECT AGAIN WITH FOREIGN MINISTRY. OUR EFFORTS WOULD BE STRENGTHENED IF WE COULD BE ARMED WITH CLARIFICATION OF DEPT. AND S.E.C. REGARDING POINTS RAISED IN PARAS 4 AND 5 ABOVE.
SHOESMITH

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